

# The Canadian Railway Problem

Discussion of the Present Railway Situation  
from the Point of View of  
Western Agriculture

SUBMISSION OF

CHARLES W. PETERSON

Editor, The Farm and Ranch Review, Calgary, Alta.,

TO THE

SPECIAL COMMITTEE OF THE SENATE, MARCH 29, 1939.

385.0971

P 485

**PROVINCIAL LIBRARY  
VICTORIA, B. C.**

P  
385.0971

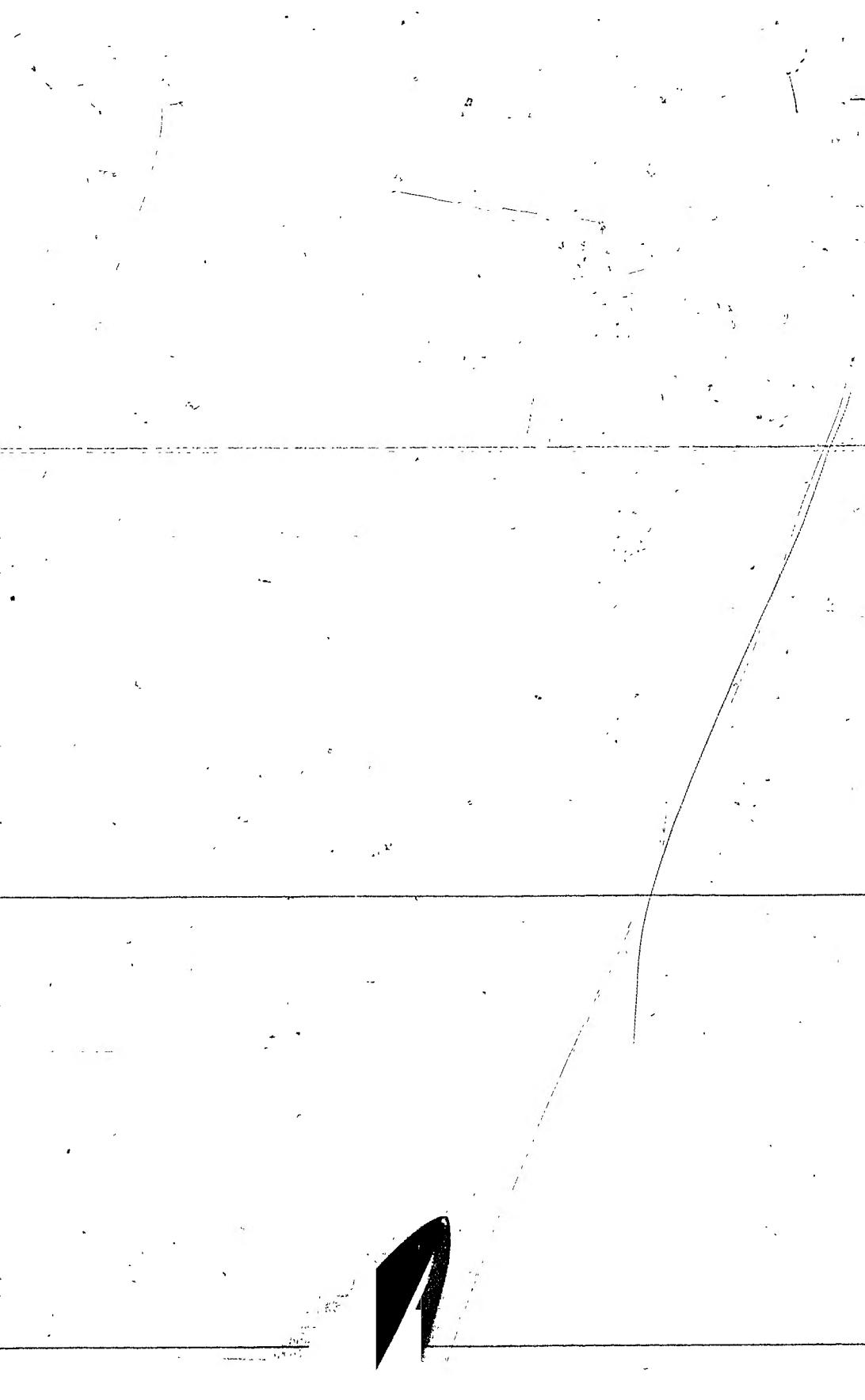
P485

*This pamphlet is published by the Citizens' Group  
for Railway Action as a contribution to discussion  
of the Canadian Railway Problem and not neces-  
sarily as an endorsement of the opinions expressed  
by the author.*

611 Temple Building,  
Toronto, 2, Ont.,  
April 5, 1939.

139418

PROVINCIAL LIBRARY  
VICTORIA, B. C.



# Western Agriculture and the Railway Situation

The Honourable  
The Chairman  
Special Senate Committee  
Ottawa

Mr. Chairman:—

May I at the outset be permitted to place on record my conviction, that the people of Canada have in the past been exceedingly well served by their railways. The passenger equipment is the last word in luxury and services and rates compare favourably with those in other countries. In respect to freight transportation Canada can boast of the lowest rate basis of any white country in the world. Only India, China and Japan, with their low labour cost, are a mere trifle below Canadian rates. The average ton-mile receipts of Canadian railways in cents is 0.969. United States rates are a shade higher. The following are the bases of other countries: Australia 2.733, Great Britain 3.058, France 4.010, Sweden 4.057 and Denmark 6.456. The European rate basis is from three to over six and a half times as high as it is in Canada.

And that tells only part of the story. Canadian railways function under the very severe handicap of having to operate the largest per capita mileage of any country in the world, except Australia, normally meaning the smallest volume of traffic per mile. Furthermore, the personnel cost of railway operation in North America is enormously higher than it is in Europe. It is clear that the amazingly favourable result in economical operation attained in Canada, which claims the admiration of railway executives everywhere, must be ascribed almost solely to a high degree of general efficiency and superior executive direction.

It may be argued that the taxpayers and shareholders have in recent years contributed liberally towards the low freight rate structure, but the fact remains that under traffic conditions prevailing some years ago, the privately owned railway was able over a long period consistently to earn a fair dividend for its shareholders, attesting to the soundness of the enterprise. The National system, of course, has not been so fortunate, but considering the handicaps incidental to political management, it has in recent years made commendable progress towards economical operation. We should also bear in mind that unprofitable railway operation is not peculiar to Canada. The privately owned railways of the United States are, with only two or three exceptions, now in receivership or facing bankruptcy. Australia and Denmark,

in spite of high rates, have for many years faced enormous losses upon their state railways.

At any rate, it is abundantly evident that the character of our railway operation in Canada, apart from unwise expansion, has been wholly admirable. I particularly desire to stress this fact, because I regard it as the most discouraging feature of our present grave railway situation. If the cause of this were merely inefficient management, the solution would be comparatively simple. But having regard to the facts, it is obvious that our railway problem has its roots in fundamental impediments of a much more perplexing character.

#### Highway and Air Competition.

The most serious of these is new competition. The past decade has witnessed spectacular progress in efficient highway and air traffic, which has revolutionized the whole transportation picture the world over. Every country now has its railway conundrum in more or less aggravated form. The extent to which this competition may ultimately undermine the solvency of steam railways is at present of unknown quantity. It depends entirely on the further development of increased mechanical efficiency and the extension of highways. We do know, however, that this new competition has now succeeded in practically destroying steam railway investment in most countries. More live stock is now delivered by truck than by rail to the leading markets in the United States. Over a million trucks use the highways of that country and Canada today. It is a paramount factor in our railway problem, which cannot be ignored in any intelligent consideration of the future of Canada's transportation services.

I quote the following item from a British periodical:

"Alarmed at the fall in their receipts during the present year, the railway companies have approached the government for help. In passenger services, the railway companies have largely met the challenge by acquiring a controlling interest in road transport undertakings. But in the goods services this cannot be done to the same extent, as about four-fifths of all transport of goods by road takes place in vehicles owned by traders, or their subsidiaries, and not in independent cartage undertakings. The private road contractor, with freedom to pick his services and adjust his charges without legal restriction, continues to make serious inroads into the more profitable forms of goods transport."

It is competently estimated that British railways to-day do not control more than ten per cent. of the total public and private trucking over distances of 50 miles.

The most reliable and conclusive evidence of the complete collapse of the steam-transportation industry may be found in the record of

Canadian Pacific shares. This stock, for many years a steady dividend payer and regarded as the safest of investments, and quoted on exchanges everywhere, a few years ago reached a high of \$280. Split into four these shares are to-day quoted at \$5! This almost unbelievable retrogression is a reflection of the consensus of judgment of shrewd investors the world over. This calamity has occurred in spite of admittedly excellent management, the enjoyment of abundant capital resources and every facility for economical financing. The inevitable conclusion is that the investor has lost faith in the ability of steam transportation to give any reasonable return on capital in the future. I regard this, by the way, as one of the most disturbing consequences of our railway situation. In British investment circles Canadian Pacific securities have for many years been regarded as the barometer of Canada's credit standing. Overseas public confidence in our country is now being rapidly undermined. We assuredly cannot afford to run the risk of a second Grand Trunk debacle.

It is absolutely incorrect to ascribe the decline in Canadian railway earnings to a mere temporary curtailment of traffic due to general economic dislocation. In Canada, as elsewhere, we face a basic and progressive mechanical change of crisis proportions, which it is utterly absurd to ignore. Any plan to place our railway transportation system on a solvent basis must anticipate a permanent and increasing per capita curtailment of passenger and profitable, short-haul freight traffic. The problem which now faces the world of rail transportation is not of a temporary character. The crucial question is whether, in view of the steady curtailment of traffic, steam railways can survive even after utilizing every possible economy in operating cost.

#### The West and Transportation.

The colonization of Western Canada was proceeded with on a basis of low transportation costs. Owing to its inland position and remoteness from tidewater, it goes without saying that the development of this great agricultural empire would have been impossible under any other conditions. A low freight basis, inward and outward, constitutes Canada's contract with the western settler, who is compelled to produce almost solely for a highly competitive, low price market and must himself absorb the entire transport and handling costs. Argentina, Canada's chief competitor in the wheat market, enjoys a freight rate to tidewater equivalent this year to only  $5\frac{1}{2}$  per cent of the value of the wheat. Western Canada's cost to the lake-head amounts to at least 25 per cent. The railway situation as it has developed during the past decade is, therefore, a matter of profound

interest to western farmers and has naturally given rise to serious apprehension, not solely confined to the implications of the vast burden of taxation now involved.

The organization of the Railway Commission, with absolute control over rates and services, was hailed with universal satisfaction as a protective measure to the shipper, but the apathy of successive governments of Canada towards the grave situation which has developed in the operation of our two great railway systems, has naturally drawn public attention to the inescapable conclusion, that public control of railway earnings inevitably implies an equal responsibility to the shareholders and bondholders of railways in respect to the safety of their investment, over which the Railway Commission, a semi-judicial body, exercises power of life and death. That this aspect of railway investment must sooner or later engage the attention of that body cannot be doubted.

The transparent unwillingness of successive governments to incur the political risks incidental to dealing constructively with what is unquestionably the greatest problem facing our country to-day has naturally led western farmers into the firm conviction, that the remedy which must eventually be applied will assuredly also follow the lines of least resistance, namely, an increase of freight rates. This conviction is materially strengthened in view of the public statement in Toronto, by the Minister of Railways to the effect that the solution of the problem lies in "building up traffic and obtaining reasonable rates for that traffic". The sinister implication is only too clear, and it becomes evident that the apprehension of western farmers is well founded.

I have no hesitation in making the positive statement, that an increase in freight rates sufficient to enable Canadian railways to maintain services and solvency, would constitute an unmitigated calamity to the now over-burdened prairie farmer. It would assuredly result in the depopulation of the western prairie section with calamitous results to eastern industry and business. It is an alleged remedy which a responsible government, conscious of the dire consequences, would not even consider for a moment until every other possible avenue of successfully solving the railway problem had been thoroughly explored and tried out. The present situation and future prospects are so serious that Canada cannot afford to reject any practical method whatever of bringing railway operating costs into line with earnings.

#### **Business Rehabilitation.**

Various plans designed to increase railway earnings or to reduce expenses, in order to avoid the imposition of higher rates, have from time to time been placed before the public. One school urges immediate

unification of operations coupled with an economy programme. Another, which apparently includes the government of the day and the Federal leader of the official opposition, seems to be convinced that the problem is not one of particular urgency and may safely be expected to solve itself through increased traffic due to increased population and the eventual return of "normal" business activity, coupled with such economies as may be brought about by friendly co-operation between the two systems.

The latter argument was effectively disposed of by the President of the Canadian Pacific, who very logically pointed out that in principle and practice co-operation and competition were incompatible. Sensible people will agree with that verdict. Furthermore, the present proposal presumably agreed upon by both the government and its railway management, to spend some \$12,000,000 on the new Montreal terminal of the Canadian National, ignoring the more economical scheme of a union terminal, is clearly a deliberate violation of the whole principle of friendly co-operation and definitely stamps this plausible appeal for cohesive effort as insincere. It bears rather all the ear-marks of an attempt to block completely a rational solution of our railway problem. The proponents of the *laissez faire* approach to the problem apparently are not particularly concerned about the probability of having in the interval to compel the taxpayers of Canada to make good another half billion dollars of deficits.

What the anti-unification forces are pleased to regard as "normal" business, is, I assume, a return of the boom conditions of 1928, though we would need to do considerably better than that, as the National lines showed a deficit of about \$30,000,000 on even that highly favourable year's operations. These optimists conveniently ignore the fact that air line, motor bus and motor truck transport are daily making further serious inroads upon steam railway traffic. It is a highly significant fact, that while our exports up to July 1937 had increased 103 per cent over the low of depression, manufacturing volume 125 per cent, electric power production 133 per cent, newsprint 310 per cent and mineral output 305 per cent, car loadings only improved by 43 per cent.

#### Agricultural Deflation.

The economic picture is, of course, never static, but it is always normal in the sense that it is the creation of prevailing conditions, to which, whether they be good, bad or indifferent, the citizen ultimately adjusts himself and carries on more or less satisfactorily. That factor frequently creates the illusion of better times just "around the corner". It is, however, quite safe to assume that an improvement in Canadian

business of sufficiently substantial proportions to lift railway traffic into a profitable volume, cannot occur as long as export agriculture must function under a demoralized price level. The gold price of wheat in Liverpool is now the lowest in centuries, and the enormous world carry-over of unsalable wheat precludes every chance of relief within the near future.

In fact, leading economists the world over see no possibility of an early and favourable change in the various important factors which have produced the prevailing low agricultural world prices. If that conclusion is correct—and I firmly believe it is—it behooves all countries largely dependent on agricultural production, to face stern realities and to adjust their internal affairs to the new economic set-up, which may easily govern our business life for a generation or longer. Needless to add, spectacular transportation expansion could not possibly become a feature of an economic era in Canada dominated by a persistent agricultural price deflation. Canada can, however, adjust herself quite comfortably and happily to the present depressed business basis and limited export opportunities, granting that all groups in our domestic economy are prepared to accept proportionate sacrifices. Our agriculture has set the example. The first essential is to realize clearly the difference between 1929 and 1939.

Consider also the steady deterioration in the Federal, provincial and municipal budget positions; the disastrous effect of the large sales taxes upon consumer purchasing power, raising the retail price level by 10 to 14 per cent, which has almost completely cancelled out the beneficial fall in wholesale prices; the progressive demoralization of world trade; the steadily increasing taxation almost everywhere, due to vast and unproductive armament expenditure as well as various other adverse factors; and having in mind that nowhere on the economic horizon is there the remotest indication of any early reversal of the present drift into rigidly controlled international trade, it is difficult indeed to find realistic grounds for an optimistic forecast in respect to business conditions in Canada, leading to substantially increased traffic. It would be more rational and more in harmony with economic thought to look for a worthwhile up-turn in Canadian business *after* we have cleaned house with our railways than *before*. If \$50,000,000 was deducted from our annual Federal deficit there would be a substantial basis for improvement.

The safe plan for Canada to follow in any consideration of constructive policies, is undoubtedly to accept the *status quo* as approximately normal for some years to come. To anticipate early and largely increased business activity and to base domestic railway policies on the strength of such a supposition, is equivalent to ignoring stern facts

and indulging in "wishful thinking". The Canadian people, particularly those following agriculture, have every reason to congratulate themselves upon the heroic manner in which they have contrived to surmount a long period of adverse conditions. They will do so equally successfully in the future, providing our political leadership faces realities and removes such obvious and unnecessary burdens upon the Canadian taxpayer as are clearly involved in the present destructive railway situation.

#### **The Population Carrying Capacity.**

The plausible suggestion that the solution of our railway problem will presently be found in a large increase in Canada's population is worthy of careful study. I need not apologize for dealing with it at some length. The present railway set-up in Canada was admittedly based on a population approximately twice as great as the present. It was confidently predicted that such a point would easily be reached within a not distant future. That this prediction proved utterly erroneous is now common knowledge. It is also to be noted that, having regard to recent climatic idiosyncrasies, our views on the population carrying capacity of Canada must necessarily undergo a very severe revision.

Furthermore, we are now in the midst of dealing constructively with the aftermath of the recent unprecedented period of destructive drouth. The difficult task of approximately defining the areas in the west definitely unfit for settlement and methods of preventing the colonization of such lands; so as not to create new problems in the future, are only in process of study and solution at the present time. Important property interests and profuse public expenditures are involved in these decisions. It is also well to bear in mind that the highly perplexing undertaking of evacuating an impressive number of farmers from the drouth areas, and colonizing them in districts offering more favourable climatic conditions, has only been well started. Under the circumstances, it stands to reason that until these agricultural survey and re-settlement jobs are fairly completed, it would be unthinkable folly to complicate this involved situation by a further influx of new agricultural population.

The Minister of Agriculture of Saskatchewan recently expressed grave doubts as to whether his province could sustain any additional population. A recent soil survey of that province limits the area fairly fit for cereal production to 33 million acres. The cultivated area now exceeds 29 million acres. We are apparently close to the margin of safety in our agricultural occupation of that province. So great an authority as Dr. Raymond Pearl of Johns Hopkins University suggests

that the United States is now dangerously over-populated, having in view the rapid depletion of natural resources. While expressing no opinion on this subject, Canada's safety limit in population, considering our severe climatic and transportation handicaps and the maintenance of an acceptable standard of living for our people, is an element in the railway situation, the consideration of which has not, by any means, been exhausted and which cannot be ignored.

#### Natural Increase in Population.

Granting, however, that we can accommodate and must look to a substantial increase in population to solve our railway problem, there is little consolation to be found in the vital statistics of Canada. The drift here, as elsewhere, is distinctly towards a lower net rate of increase in population. If we are to depend on natural accretion the case seems hopeless, as it would not be difficult to show that within the not distant future, Canada's population will certainly be approaching a stagnant or possibly decreasing basis. Decidedly, the element of time holds out no hope whatever of creating additional traffic by virtue of natural increase in population. Quite the reverse.

The possibility of the increased population remedy, therefore, resolves itself into the prospect of augmenting our population by means of a substantial immigration. The question here arises as to whether a large agricultural immigration, inevitably followed by a corresponding increase in export food products, would not completely demoralize our present limited, overseas markets. It would, in fact, certainly have that immediate effect, of which the farmers of the West are quite convinced, and would, therefore, at present violently resist any attempt of solving the railway problem by a process which was bound to destroy their market and reduce the existing farm population to a still lower standard of living.

However, disregarding this weighty objection, I must still reluctantly confess that such an apparently easy solution of our problem looks to me almost as idle as anticipating this result through the process of natural increase. In the first place, the people of Canada, rightly or wrongly, are not immigration-minded and probably will not be for years to come. The best evidence of that fact is the record of our immigration administration, which presumably reflects the state of mass public opinion. If Canada to-day opened her doors wide to European people, the volume of arrivals would probably not show any substantial increase, aside from a momentary influx of political refugees. In spite of this fact, our policy has consistently been designed to hedge entrance into Canada around with every conceivable obstacle,

to the extent that immigration has now been reduced to a mere trickle compared with what it was some years ago.

#### The Leak by Emigration.

Even that insignificant influx of people is now fairly absorbed by departures from Canada. There are now one million and a quarter Canadian-born people domiciled in the United States. It has been estimated that Canadians, and those of Canadian origin living in the United States to-day, represent a population one-third as large as Canada's total present population. During the past eight years we have lost to that country alone an average of 10,638 of our population per annum, according to official statistics in Washington. A large number of British and European settlers have also returned to their former homes. Canada, therefore, actually faces a net loss of people each year aside from our modest natural increase;—a highly disturbing fact discreetly ignored in our immigration reports. The persistent and ominous leak of population to our southern neighbor, which seems to proceed in spite of prohibitory legislation, and of the actual extent of which we can form no reliable estimate, is a highly important factor always to be reckoned with in our population problem.

Moreover, it is obvious that the present, and preceding governments are not, and have not been, prepared to endorse a vigorous immigration policy as being within the scope of practical politics. That official attitude at once disposes of the opportunity of solving the railway problem through the long-range remedy of a substantial immigration movement. It may, therefore, be dismissed without further argument, as it is evidently contrary to existing public policy. It may, of course, be argued that some time in the future the official attitude towards immigration may, in obedience to the force of public opinion, undergo a radical change. While I see no present indication of such a change, it may be useful to examine Canada's chances of attracting a large influx of people in the event of any such reversal of policy. Frankly, they appear very slim indeed.

#### Immigration from Europe.

The obsession which now fills the minds of most of our population, that it is an inestimable privilege to permit an immigrant to come to our shores and homestead or purchase a piece of land, will unquestionably be largely removed within the near future, when the realization will dawn upon us that our most urgent invitations to do so will be unheeded. We will learn, to our dismay, that the wholesale subdivision of landed estates in Europe is giving the farmer there better social

and economic opportunities, and much superior markets, than Canada can offer him in the uncertain field of highly competitive export production with the further handicap of expensive, long distance transportation.

Moreover, in the food importing countries—in the past the most fruitful sources of immigration—high tariffs and other import limitations have brought increased prosperity to domestic agriculture. Even if we modified our somewhat exacting specifications and freely accepted industrial immigration, we should encounter a distinct reluctance on their part to leave the economic security they now enjoy in Western Europe in terms of unemployment and sickness insurance, pensions of various sorts and a complete programme of other social services.

With the pressure of density of population relieved through the rapidly falling birth rate in Western Europe, it will assuredly be increasingly difficult to tempt prospective homeseekers to go far afield. This attitude is clearly demonstrated by the fact, that the movement of people into Great Britain and other European countries is now larger than departures, while most overseas countries, including not alone Canada, but also Australia, New Zealand and Argentina, show a net loss between arrivals and departures. These figures tell the tale eloquently.

#### Passing of the Migration Era.

We might as well become completely reconciled to the fact that the days of large-scale migration are over, certainly as far as the present generation is concerned, and in all likelihood for generations to come. After the fantastic increase in world inhabitants of the past century, when the population of the earth more than doubled in the brief space of 80 years—in sympathy with the opening up of three new continents for colonization, improved transportation and the development of power and mechanization—we are again back to normal, which, according to history, means a scarcely perceptible increase from century to century, with long periods of a receding world population. There is every reason to believe that we now find ourselves in one of the latter phases with all its implications.

All European countries, except Russia, are barely maintaining their population to-day and the tendency is still towards an ever-decreasing birth rate and a stagnant population. It is not unreasonable to anticipate that a period of the greatest rate of increase in world population may logically be followed by a century of actual decrease. The persistent world-wide war complex, economic depression and abnormal unemployment, are in themselves powerful factors in that direction.

In brief, we have now entered an era in world evolution distinctly and progressively antagonistic to the voluntary migration of peoples. Coupled with this handicap is the dismal fact that there never was a time when this Dominion had less favourable prospects to offer the newcomer. Under the circumstances, thinking people must inevitably conclude that the proposal to solve the railway situation by a substantial and early increase in Canada's population is an impossibility for years to come, and must be dismissed as entirely visionary and evidently based on a complete lack of knowledge of the present day conditions surrounding this issue.

#### Economies in Operation.

Seeing no possible amelioration of Canada's railway problem in any prospective increase in traffic earnings due either to the early advent of a general and substantial expansion in business, or to a large increase in our population, it is useful to turn our attention to the possibility of solving the problem by instituting economies in operating expenditure. I am not competent to enter into the technical side of railway operation and shall, therefore, confine my remarks to the largest item in the operating budget.

It is highly significant that practically every plan of railway rationalization so far made public avoids any reference to the central cost factor, namely the wage item, which represents about 62 per cent of the total operating expenditure. Most of these plans, on the other hand, contain confident assurances that railway personnel need anticipate no interference with its economic status. It seems to be tacitly agreed that this subject is sacrosanct and that a government engaged in the railway business cannot afford even to discuss the labour question. In view of the fact, however, that this issue actually constitutes the central point in the whole railway controversy, it is necessary for me to deal with it at some length and with considerable frankness, particularly as no one else has, as far as I am aware, seen fit to do so.

In implementing any unification plan the taxpayers would quite properly expect that all undue hardship to employees should, as far as possible, be avoided. The theory, however, which seems to prevail in many quarters, that the main preoccupation of our railway system is to provide permanent and highly paid jobs, cannot be tolerated. Railway labor, which has always been the most highly paid and best treated trade in Canada, has no claim whatever to any more generous treatment than would be accorded employees in other lines of business affected by changes in organization.

Any displacement of railway labour, which might be the immediate effect of reorganization, is purely a disagreeable but necessary by-

product. Any consideration of such extraneous factors should never be permitted to influence remedial action in a matter so deeply affecting the welfare of all the people of Canada. If, from motives of political expediency, special provision were to be made for displaced labour, the cost should certainly be assumed by the people of Canada and not by the employing railways, which are in no position financially, and under no moral obligation, to extend compassionate treatment to superfluous employees.

In spite of the fact that capital invested in our railway enterprises, aside from money borrowed, has long ago ceased to receive any returns whatever, it is apparently still assumed that railway labour has no responsibilities to its employers or to the public beyond performing its daily tasks. The clear implication seems to be that railway labour, secure in its powerful fighting organizations, admits no interest whatever in adequately protecting its own jobs. That duty is conveniently delegated to the taxpayers, shareholders and consumers of transportation. I venture to question the justice, certainly the wisdom, of this attitude. I can think of no other occupational group privileged to impose such arbitrary responsibilities upon the public.

#### The Railway Wage Level.

Taking railway wages in 1913 at 100, in 1901 they stood at 68.8 and in 1937 they reached 196.1. That shows an increase of nearly 200 per cent over 36 years. Farm product prices during the same period increased 14.9 per cent. Railway wages increased between 1913 and 1937 by 96.1 per cent while farm product prices fell 0.2 per cent, and the cost of living for a family increased only by less than \$3.00 per week. During that period we cheerfully created the present enormous deficit on the operation of the National Lines and it apparently never occurred to anyone in authority that there was an obvious answer to that state of affairs. Canada has certainly treated her railway employees most generously, largely at the expense of agriculture, the heaviest user of railway transportation, and certainly at the direct expense of the taxpayer.

The economic formula under which modern society functions is very simple. Out of every dollar we pay over the counter, an average of about 85 cents is absorbed in the payment for human services. Normal employment is the result solely of normal consumption of goods and services. The volume of consumption is controlled by the purchasing power of the consumer, and this is determined by the fluctuation in the general price level, which is controlled absolutely by the wage level. Orthodox economy expects the law of supply and demand to maintain reasonable equilibrium between wages and prices, so as to keep pur-

chasing power and employment normal at all times. When, however, we successfully contrived to impose arbitrary wage levels on our economy, the law of supply and demand at once became a dead issue and we thus created our unemployment problem, because while labour can enforce arbitrary wages, it cannot compel the consumer to provide employment by buying its product at artificial prices.

The high wage theory is merely a transparent economic absurdity. Social justice to all occupational groups must be the guiding principle in the well-balanced community. This admits of neither high nor low wages, but demands wage levels based on justice only. Purchasing power must be fairly distributed amongst all classes according to their contributions to the common welfare. About half of our population lives in the countryside. The purchasing power of that group determines the prosperity of the nation. The farmer normally receives so small a share of the national income that his purchasing power is governed entirely by the level of urban prices. As long as these are unduly high, as they must be under our high wage level, he is out of luck.

More than one-quarter of the population derives its living from the wage pay-rolls. The purchasing power of this important group is also of grave concern. It must, nevertheless, be recognized that even so numerically important a class as the wage earners cannot receive an unduly large proportion of the income derived from production, without depriving the other three-quarters of purchasing power in terms of higher industrial prices. It is, by the way, well to bear in mind that the crisis of 1930 arose when the industrial wage level was at its highest peak. That did not save the situation. *There is, in fact, no economic salvation in high wages unless they are the result of higher individual efficiency.*

#### Farm and Labour Incomes.

Canada has stubbornly based her whole economy upon her supposed ability to pay the world's highest urban wage level. That is one of the confused theories we have imported from the United States, the fountain head of most of our economic wisdom. Almost the sole function of the protective tariff to-day is to guarantee and maintain this artificial wage structure. In a country where the living of one-half our population depends on agriculture, which must compete freely in its entire production with black, brown, yellow and white peasant and peon labour, such a generous urban wage policy is, to say the least, ambitious to the point of imbecility. It is a typical product of the single-track mind bereft of all sense of proportion. The average consumer can, of course, refuse to buy industrial products in normal volume, as he has been doing for several years, but when Canadian railways are

forced to impose an artificial wage level upon a utility such as transportation, which we are all compelled to patronize, a situation arises which western farmers will only submit to under the strongest protest.

I am not familiar with agricultural opinion in Eastern Canada, but would quote for your information the following extract from a recent editorial in "The Canadian Countryman", a leading farm periodical published in Toronto:—

“ . . . One of the fundamental reasons why farm business and urban business as a whole cannot be carried on satisfactorily with our present general price level is that the rate of wages paid in our most important urban industries is too high compared with farm prices. Taking the year 1913 as 100, we find that the index number of the price of farm products in November this year was 101. The index number of the rate of wages paid in our major urban industries is approximately 191. As trade is very largely simply an exchange of goods and services between people who work in the city and those who work on the farm, it is not much wonder that there should be so much unemployment and suffering when a disparity of this kind exists. Considered in terms of purchasing power the situation is even worse. Taking 1913 again as our base year, we find that the index number of the purchasing power of the price of farm products in November was 79. The purchasing power of wage rates was 149. That is the purchasing power of wage rates is about double that of the purchasing power of the price of farm products. This is an intolerable situation. . . . ”

Thinking farmers throughout Canada are apparently of one opinion on this subject. One finds it difficult to reconcile the hour rate of earning of the western farmer, estimated at between 10 and 15 cents, with the comparatively princely wages paid at least in the upper grades of railway employment. No one can dispute that the competent farmer possesses a wide assortment of knowledge and skill much superior to the average run of railway labour. He might with full justice demand a compensation for his year's labour equal to that of the railway employee.

The hazard to life in railway employment is strongly emphasized in wage conferences. That superstition is many years out of date. With modern safety devices it is doubtful whether the occupation of a train crew is nearly as dangerous as that of a taxi-driver on our crowded streets. There is, in fact, neither rhyme nor reason in the whole theory of present wage differentials. Half of Canada's wage-earners, backed by militant organizations, now collect 80 per cent of the national wage bill.

Existing hour rates of wages are constructed neither with reference to technical skill, duration of training period, hazard to life and health, nor on any other rational premises. The unvarnished truth is, of course,

that they are based almost entirely on the efficiency, cash resources and solidarity of each individual labour organization, and upon the vulnerability of public welfare in respect to the essential services the members of each such organization are responsible for maintaining and, therefore, have the power to demoralize through the medium of strike. Labour's ability to impose its will on the community depends exclusively on these factors.

The great international railway brotherhoods are admittedly the wealthiest and most powerful of all labour organizations, and have, therefore, been able to coerce their employers and the public into acquiescing in a wage scale which bears no reasonable relation to the earnings of other comparable occupational groups. Railway labour, not alone by its uncompromising attitude on wages, but by its notoriously wasteful cost- and job-increasing shop conditions, has now brought practically all North American roads to the point of bankruptcy. Western agriculture considers that a searching judicial inquiry into the justification of the railway wage scales is long overdue. Unless an effective check is applied, an increase in freight rates is inevitable.

#### Foreign Control of Railway Labour.

I might here observe that as a matter of public policy it is in the highest degree improper, if not actually dangerous, for the labour relations of the government railways to be dictated by organizations domiciled in, and under the sole jurisdiction of, a foreign country, able to exercise at all times the power to completely demoralize the transportation system of Canada and to bring strong pressure to bear on its Canadian members, as has obviously been done, to strike, with foreign financial support, for higher pay in the interest of uniformity of compensation on both sides of the line, irrespective of the varying economic conditions prevailing in each country.

It should be made absolutely clear to Canadian railway employees, that the wage-level in the United States, which is now regarded as the standard for Canada, can have no sensible bearing on the Canadian wage level. It stands to reason that public policy in the United States influenced by party politics, might be at any moment—and actually is at the present time—actively directed towards general economic and wage standards, which might be quite antagonistic to the public policy and prevailing economic status of Canada. To perpetuate the existing state of affairs is tantamount to surrendering to the United States government—which has, from obvious political motives, recently intervened successfully to maintain the high wage rates of her own bankrupt railways—the final decision in Canada's railway problem.

No other nation in the world would tolerate such a labour organization set-up for a moment, particularly where it involved an indispensable public utility. Canada's dull acquiescence in this preposterous situation is a sinister reflection upon our unwillingness to deal intelligently with labour issues and indicates the danger of Canada's position as an employer of an army of highly organized public servants able, not alone to impose their views through a threat to dislocate our whole transportation system, but also to inflict political retaliation when exorbitant demands have to be resisted. I cannot imagine a weaker or more vulnerable instrument for dealing with labour disputes of large dimensions than a democratic government.

#### **Wages and Freight Rates.**

One would suppose that intelligent railway labour leadership in Canada, knowing that they are no longer serving an invulnerable transportation monopoly, would by this time pause and consider the future in the light of commercial self-interest. They cannot fail to realize that they have now exploited the people of Canada to the utmost limit, and that the time is long overdue to shed the 1929 "boom" complex. The earnings of a controlled public utility are strictly confined to the business available. The fortunes of its employees must in the last resort move up and down in harmony with those of the enterprise itself, unless we are frankly to cast overboard all the rules of prudent business administration.

There is, in fact, no place for the high, arbitrary wage scale, unless labour can invent a painless formula by which the patrons of railways can be coerced into providing the revenue required in terms of increased rates and volume of traffic. In the absence of such the present attitude of railway labour is simply tantamount to a demand that they continue to be in part affluent pensioners on the bounty of their needy fellow citizens—a position not calculated to enhance the prestige of a large and honourable occupational group, whose insular leadership has apparently forgotten the admonition to "live and let live".

The demand of labour in 1936 for a ten per cent increase in wages—adding \$22,000,000 per annum to railway operating costs, equivalent to 8 per cent—made under threat of strike and with full knowledge of the precarious financial situation of both railways and in the face of a substantially reduced cost of living, was an unprecedented exhibition of callousness and disloyalty towards the interests of both their employers and the Canadian taxpayer. This preposterous demand, unjustly acceded to, constituted a major calamity. It was a crude and craven admission of the strange theory that, as long as the people of Canada are in the railway business, the wages of employees shall bear

no relation whatever to the ability of the business to finance itself. The taxpayers will be forced to shoulder the deficit. It set a new precedent in government operation of utilities. One wonders how the privately operated railway can efficiently manage its own labour relations teamed up with a competitive system under political control, whose decision in any labour dispute is bound to prevail. The strategic advantage of labour under such a set-up is evident.

From a point of view of transportation rates, the western farmer occupies the most vulnerable position of any group in Canada. Any government which undertook to protect the present extravagant railway wage level by an increase in freight rates—and that is the plain issue involved—even though the agricultural export rate structure were left intact, would sign its own death warrant in the West. The effect would be a higher operating and living cost, which would further reduce the prevailing near-slum standard of living of western agriculture. It must be clear to the simplest intellect that the remedy for the desperate straits of our railroads is not higher rates, meaning higher commodity prices, further restricted trade and transportation and more destructive competition, but a sane wage bill substantially reducing operating costs.

#### **Canadian vs. British Labour Attitude.**

Canadian labour leadership, in spite of repeated assurances of full protection for railway employees, went on record recently in opposition to unified operation of our two railways. This was an amazing demonstration either of complete lack of business perspicuity or of callous indifference to the ultimate fate of these enterprises. It seems unthinkable that any responsible person should, in these days of universal stress and sacrifice, seriously advocate an increase of rates as a solution of our railway problem, until every other possible avenue of relief, including the rationalization of wages, had been completely exhausted. If that is a reasonable conclusion, it is obvious that railway labour cannot hope ultimately to maintain its present wage level under separate management of our two systems, for the simple reasons, first, that there is no relief in sight in terms of substantially increased traffic revenue, secondly, because no one is able to indicate where any further considerable economies can be effected under dual management, and, thirdly, because of the increasing competition of other means of transportation. Coupled with these facts is the peremptory demand of a rapidly increasing section of the public that this indefensible fiscal leak be stopped without delay.

Granting that the present unjustifiable wage level may eventually have to be reduced even under unified operation, it is still evident that the pressure on the wage earner must presently become infinitely

stronger under separate management, deprived of any other means of reducing operating costs and rapidly going into bankruptcy. One would naturally suppose that the only possible chance of railway labour's maintaining anything like the present level of wages would be precisely through unification. British railway labour, drawing very low wages and confronted with the same situation, quickly recognized that the only effective guarantee of fair wages and working conditions is a solvent employer. After the unification of all the British railways into four regional groups, railway workers there are now pressing for complete amalgamation of these into one concern in the interest of still further operating economies. Canadian railway labour apparently has no interest in Canada's railway problem, beyond what they erroneously conceive to be to their immediate advantage in terms of jobs and wages.

Or, it is conceivable that Canadian railway employees consider their position unassailable and still hopefully pin their faith to the old-fashioned method of terrorizing the public by the threat of domestic warfare, and the dislocation of our transport services. If so, I would hazard the opinion that a general railway strike has now lost its terrors. It would not, in these days of efficient motor transportation, constitute anything like the menace it once represented. Public opinion would assuredly be strongly adverse to the labour point of view in a fight practically involving the welfare of Canada. A strike would be irretrievably lost before it started.

#### Economies Under Unification.

Competent opinion assures us that unified operation of our railways might easily effect such substantial savings as to eliminate the present aggregate losses. Those opposed to unification question that statement. Obviously, it is difficult to calculate even the approximate saving to be effected with such important controversial issues outstanding as the extent of abandonment of unprofitable lines, which clearly must be a matter of careful consideration and probably of lengthy negotiation with the interests affected. In this submission, I shall not attempt to go further than to express very general opinions, based entirely on a somewhat lengthy experience as a senior business executive, upon a subject clearly bristling with technicalities.

To the direct economies which may be gained by unified operation of our system of railways, the safest interim approach is perhaps the application of ordinary, common sense. It stands to reason that the complete duplication of traffic solicitation and facilities, executive management, expensive and continent-wide service offices, publicity, accounting and scores of other overhead costs could be cut in two or largely curtailed under unification. Some could be completely elimin-

ated. That these savings would in the aggregate amount to an impressive sum is indisputable. It is clear that a great public utility can, other things being equal, operate most efficiently and economically as one unit, relieved of all the expensive and vexatious problems incidental to keen competition for the patronage of the public.

Whether the economies incidental to unified operation would, or would not, completely cover the present deficit, is not the point. In view of the serious position of both our railway systems, the taxpayers of Canada have the right to demand that every possible avenue towards reduced operating cost be exhaustively explored and fully utilized in order, first, to limit the tax burden, and, secondly, to leave open the door to possible rate reductions in the future. Every single move promising any substantial economy in aggregate operating expenditures is absolutely mandatory if we wish to salvage our five billion dollar railway plant and ensure indispensable rail facilities for our people.

#### Competition Indefensible.

On the general subject of the propriety of the present competitive set-up in our railway services, may I point out that democracy contemplates that the government shall at all times impartially conserve the legitimate interests of its citizens without fear or favour. Shareholders in the private railway system invested in good faith in a concern incorporated under Canadian law, took great risks and are clearly entitled to decent treatment. When the government of Canada first embarked upon railway operation, the public business was fairly divided between the two systems. That was as it should be. Now all government patronage goes, as far as possible, to the National Lines. It is plainly a case of competition without gloves between a government and a group of its taxpayers. The normal limiting factors in competitive effort are efficiency and available capital. Irresponsible competition ultimately leads to bankruptcy and elimination. The process of the survival of the fit maintains equilibrium in business, and it is important in the interest of sound and sane national development that this natural process should not be obstructed.

The President of the National Lines, in his evidence before the Senate Committee, suggested that the mission of his system was not to make profits, but to render services to the public. In a recent speech at Toronto, Mr. S. W. Fairweather, Chief of Research of the National Railways, said:

"There is another side of the deficit of the Canadian National; primarily the railway is not operated for profit, but for public service and the development of the country . . . it would be a short-sighted policy to make railway profits the criterion and test of development."

Such an operating policy under the present railway set-up would, of course, be absolutely unjustifiable. That the government of Canada should furnish transportation at less than cost in order to promote the development of the country, or any part thereof, might conceivably be excellent public policy in many cases. But however meritorious such a policy might be, it would now necessarily involve compelling the shareholders of the competing private railway system to become equal contributors with the government towards any such objective of general public interest, by means of what would virtually amount to discriminatory taxation. This principle creates a preposterous situation.

It is clearly unethical for a government to enter active business in competition with its own taxpayers. If a government is at any time confronted with the necessity, in the public interest, of socializing any utility or business enterprise, it is its bounden duty to leave no stone unturned forthwith to create of such business a public monopoly and, even at considerable sacrifice, to give every private concern in the same business the fullest opportunity to escape from the admittedly impossible situation of competing with its own government, having the capacious pockets of its taxpayers—including even those of the private competitive enterprises—to resort to to liquidate the financial consequences of eventual extravagance and mismanagement. The record of our National Railways, with its periods of reckless expansion and duplication of services, provides the most convincing proof, if any is needed, of the fairness and soundness of this principle in public administration. The present railway set-up in Canada is obviously immoral, illogical and indefensible.

#### Competition and Services.

In the early days the West fought persistently and justly for competition in transportation. With the advent of the Railway Commission and public control of rates and services, however, this issue at once became obsolete. The assertion that competitive enterprise is desirable in order to promote efficiency in railway services is not convincing. According to that theory we should also have competition in telephone and postal services and in other public utilities, when it is common knowledge that the tendency the world over is precisely to operate all public utilities as a monopoly under rigid state control, not alone in the interest of efficiency and economy, but also to avoid the burden of uneconomic services. Public service enterprises are everywhere regarded as "natural" monopolies.

It is true that the absence of the spur to improve services afforded by keen competition might lead to deterioration. On the other hand, it is equally true that such competitive services are generally inaugu-

ated long before they are economically justified, thus leading to extravagance. Under unified, non-political control improved services would be provided as soon as they would pay their way and no sooner. Under competition they are offered as a bait for increased patronage. Presently the competing line must follow suit and also embark upon a losing adventure. It may, I think, be successfully argued that in the last resort, one solvent railway will give better services than two competing lines both hovering on the verge of bankruptcy.

Our outstanding problem is to make the transportation system of Canada as a whole pay its way, consistent with rendering adequate—but only adequate—services to the public. The western farmer is of the opinion that the people of Canada evidently are not in a position to demand and pay for "palaces on wheels" or any other expensive superfluities. If they were, both railways would probably now be in solvent circumstances. Granting a moderate and sane view on the subject of services, I cannot see the slightest justification for maintaining competitive railway transportation. On the contrary, it is not alone absolutely indefensible in principle, but it defeats the paramount objective of economy in operating cost.

#### Abandonment of Unprofitable Lines.

It has been asserted that one of the most promising, and also perhaps the most controversial, objectives in the reduction of aggregate railway operating costs, lies in the abandonment, or part abandonment, of the enormous mileage of paralleling and unprofitable lines, estimated by the Duff Commission at 17,000 miles. This problem in railway operation is not, of course, peculiar to Canada, nor indeed to new countries. Great Britain has faced the same situation. It is estimated that if military considerations were ignored and British railways could substitute truck service, 2,600 miles of single track lines could profitably be abandoned, representing 13 per cent of the total route mileage. During the past ten years one per cent of the aggregate mileage has actually been completely abandoned.

I shall, however, offer no comment on this subject beyond this, that if the Railway Commission, with all the facts before it, deems it essential in the public interest that services should be maintained over any unprofitable lines, then, having due regard to any subsidy or equivalent a railway may in the past have received in respect to the construction and operation of an apparently superfluous line, the government of Canada should assume its just and proper share of the annual losses involved, by special and direct subsidy to the operating railway. That would keep the record straight.

Furthermore, as a public contribution towards, and in order to facilitate, railway rationalization, western people would unquestionably support a very liberal policy in that respect, so that no injustice may be inflicted either upon the railways or upon vested interests along existing unprofitable lines. The government might conceivably subsidize motorized highway transport to serve such areas, in some cases using the abandoned right-of-way. With this highly efficient alternative now available, the obstacles to abandonment should not present anything like the difficulties they did some years ago. At any rate, the solution of the railway problem is of so urgent a character that sacrifices can be safely demanded from all interested classes of the community.

#### The Political Implications.

A dispassionate survey of the railway situation would not indicate that it is by any means hopeless. Obvious opportunities for substantial economies in operation present themselves in numerous directions. There is, however, no easy way out. The easy remedies have been exhausted by this time. We now face those uncomfortable issues in economies, which involve fundamental changes and controversial policies. Several feasible railway unification plans have been constructed amply protecting the public interest.

The arguments hitherto advanced against unification are based almost entirely on the extremely doubtful virtues of competition and ignore the crucial points, which are, first, the moral impropriety and the economic wastefulness of competition and, secondly, the urgent business problem of salvaging an indispensable public utility through facilitating operating economies, rather than through increasing the cost of services to the farmer and the general public. That unified management of the two systems will eventually be forced upon the people of Canada admits, as I see it, of no doubt whatever, simply because there is no other easy way to eliminating operating losses. Presently an overwhelming majority of the Canadian people will demand the common sense solution of the problem.

It is painfully evident that the real obstacle to railway rationalization is the political implications involved. The personnel, representing about one per cent of the population, but controlling perhaps a quarter million votes, constitutes one of the serious problems of democracy engaged in the dangerous pastime of ownership and operation of "Big Business". An isolated major adventure in state socialism embracing an army of perfectly unionized workers cannot possibly succeed. Successful control and socialization of business necessitate a political dictatorship, able to restrain the unionization of labour for bargaining

purposes. That has been demonstrated over and over again in Europe since the war. When a democratic government undertakes, directly or indirectly, to bargain with large bodies of powerfully organized employees, its final decision obviously affects its own political fortunes and, therefore, opens the door wide to political corruption. In every general election the railway vote would naturally favour the highest bidder. We cannot afford to ignore this deadly menace to our public life.

It has even been suggested, that railway unification in Canada would constitute a public menace, as so large an organization would be politically all-powerful. That, of course, is sheer nonsense. Whether the railway vote is concentrated under one management or under two or half a dozen, the railway brotherhoods will always act as one unit and labour, under the present set-up, will bestow its political rewards or punishments as one unit. The danger of labour domination obviously lies solely in the political administration of railways.

#### Non-Political Control.

I am in complete agreement with the Drayton-Acworth Royal Commission report which says on this subject:

"... We believe that the history of railways all over the world, where the management is directly under a minister responsible to a democratic Parliament, confirms our position that under such a system the public suffer because special interests obtain concessions at the expense of the community as a whole. It is for this reason that we have emphasized our recommendation that the management of the railways be entrusted to a body independent of politics."

The government and the Federal Transport Department must be divorced entirely from the management of our railways through unified control under a board of possibly fifteen directors, five elected by the government, five by the shareholders of the Canadian Pacific Railway and one each nominated by some such representative and non-political bodies as the Canadian Chamber of Agriculture, the Chamber of Commerce of Canada, the Trades & Labour Council, the Canadian Manufacturers' Association and the Engineering Institute of Canada. A board so constituted would completely protect the management of the unified railways from political pressure and would also give the tax-payers and shippers of Canada direct representation uninfluenced by politics.

Such a board should elect and appoint its own officers, and it would be important that minority groups within the directorate should have full and independent access to the impartial and final judgment of the Railway Commission on all majority decisions upon rates and services

with which they were not in agreement. A semi-judicial body such as this, with a back-ground of technical knowledge of railway administration, and having available a staff of competent technical advisers, and being specially charged with the responsibility of safeguarding the joint interests of the owners of the unified system—the citizens of Canada and the shareholders of the Canadian Pacific—would assuredly come nearer rendering safe and sane decisions than the political head of a department, exposed to the influence of pressure groups and hampered by uninformed public opinion and party considerations.

#### Conclusion.

That Canada's railway problem must be solved at the earliest moment is mandatory, not alone because it involves an intolerable and wholly unnecessary burden on the taxpayer, but especially because it is exercising a distinctly demoralizing influence on public opinion. Coupled with our enormous expenditure on relief, our apathetic attitude towards this destructive leak in our national resources has already created the illusion in the minds of too many of our citizens that the public purse is bottomless and that we can with impunity continue to add to our fantastic public indebtedness.

In order to conveniently defer constructive action, timid political leadership has from year to year deliberately reassured the public in respect to Canada's fiscal position, until many otherwise intelligent citizens, influenced by irresponsible, financial "witch-doctors", are now actually beginning to believe that credit and debt, public and private, are, in fact, largely a matter of accounting tricks and the liberal printing of currency. When the government itself refuses to face the desperate realities and complacently condones a ruinous deficit on railway operations, which in saner times would not be tolerated for a moment, we may confidently anticipate that the man-on-the-street is going to be no less complacent, and many will be quite ready to support weird plans to solve fiscal problems by financial magic. That is the price democracy pays when governments choose to under-rate the disastrous effect on mass-opinion of an attitude of unconcern respecting spectacular financial losses.

Transportation in a far-flung country like Canada is the central operation of our industrial and agricultural economy. It intimately touches the life of every citizen and it behoves Canada to promote, by every means within her power and at almost any sacrifice, the highest possible degree of efficiency and economy in her vital transportation services. Confronting an identical problem in 1921, a determined government in Great Britain, facing strong opposition by the railways, by labour, by the technical press and the general public, abolished

wasteful competition through the wholesale amalgamation of 120 railways into four regional, non-competitive systems. The new set-up has now earned the approbation of everyone. It saved the situation completely. Are our Canadian leaders unable to emulate this example of bold statesmanship?

What I believe to be a rapidly growing majority of Canadian citizens, and almost the entire press of Canada, are to-day united in the demand for speedy railway rationalization. Are we to confess that, facing this national emergency, our political leaders are unable to sink considerations of party advantage and to agree on a rational plan of unification in the best interests of Canada? If our statesmen of today wish to avoid the opprobrium of the public of tomorrow, they have no choice but to pursue the logical course dictated by common sense and a realistic conception of the grave problem facing us all.

The responsibility resting on our political leaders of all parties is a heavy one. If the welfare of Canada is to be made subservient to the fortunes of political parties and occupational pressure groups, our case is desperate indeed. But I cannot bring myself to believe that our leaders cannot be brought to agree on sinking selfish interests in meeting a crisis, which, unless surmounted through co-operative effort of high-minded men, threatens to perpetuate the existing economic stress and ultimately to tarnish the good name of Canada in the financial centres of the world, thus retarding the clock of national progress. That is the inevitable penalty we would pay.